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## Interview

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# Senator Alan Cranston: Fed's policy is inflationary

*The following exclusive interview was granted to EIR's Barbara Dreyfuss on April 14 by Sen. Alan Cranston of California, the Democratic Minority Whip. Cranston has just introduced a bill that would allow the President to choose his own Federal Reserve Board chairman, and has added his voice to the criticisms of Fed Chairman Paul Volcker's high interest rates by demanding that Volcker submit his resignation.*

**EIR:** Senator, what is your concern about the Federal Reserve Board?

**Sen. Cranston:** My concern is that the Federal Reserve Board seems to be focusing on interest rates through tightening money to control inflation. The undersecretary of the Treasury, Beryl Sprinkel, criticized the Fed as too centered on continuing the interest-rate level, and the burden will work against stimulating the economy. There's concern in Congress, the Democratic Party, the business community. I'm not suggesting a direct strike against the independence of the Fed. I am suggesting that we reverse the timetable when the chairman and the vice-chairman of the Fed are selected.

Presently their term commences two years into a new President's term. I suggest that their terms expire on Jan. 20, the day the new President is sworn in, so he can pick the chairman in tune with what he's been elected to do. This follows from the report, the only serious study of the Fed in the past generation, made in 1961 by the Commission on Money and Credit established in 1959 by the Committee on Economic Development. It made this single recommendation, exactly what I am proposing be done.

**EIR:** What is your view of the current Federal Reserve chairman and the way he is handling interest rates? What are the effects of the high interest rates on the economy?

**Sen. Cranston:** The long-range effect may or may not be

to slow inflation adequately. But the immediate impact is to itself be inflationary, in that the high interest rates add to the cost of everything touched.

And on the other hand, it hampers the effort to restore productivity because it inhibits investment in new factory equipment and rolling stock and other material needed to increase productivity. So it's counterproductive in that sense. I think Volcker places too much emphasis on the single tool of high interest rates. And the handling of interest rates is somewhat erratic. So nobody can plan. Otherwise I don't have any beefs with him. My feeling is just that the system should be altered as I said.

**EIR:** Have you heard from the administration on your suggestion?

**Sen. Cranston:** No, I have not. I haven't made any effort to line up support. I will be doing that. I did talk to Garn, the chairman of the Banking Committee. He indicated that when they have oversight hearings there might be an opportunity, I can pursue this point. This will be sometime in the next few weeks.

**EIR:** Can it possibly pass the Congress?

**Sen. Cranston:** I don't know. I hope the mere suggestion that something like this will happen will catch the attention of the Fed and make them realize that if they don't act more like a member of the team, there could be a developing demand for even more far-reaching legislation affecting their role.

**EIR:** Will this be a major issue in the Democratic Party?

**Sen. Cranston:** High interest rates are becoming a major issue not just in the Democratic Party but in the Republican Party, and in the business world, too. I would like to see President Reagan have a Fed chairman that would be more cooperative. But actually my proposal wouldn't

take effect until the new President took office. Whoever the new President will be, he will be able to pick his own Fed chairman. The mere introduction of this might have an effect on the Fed's behavior presently, there's enough indication of interest presently.

**EIR:** Have you spoken to Volcker about the interest rates?

**Sen. Cranston:** I haven't recently, but over the past few years I have been urging him to recognize that we are taking steps to cut the budget and revise taxes, and the Fed should not place their reliance on their own efforts to deal with the economy through interest rates. And he has never been particularly responsive to that.

**EIR:** Do you intend to speak out further about this issue?

**Sen. Cranston:** I intend to keep pushing on this issue.

**EIR:** There was a House Democratic Party statement last week on economic policy; do you anticipate one from the Senate? The House statement included a strong attack on the high interest rates.

**Sen. Cranston:** I anticipate that there would be, but I don't know. I know that the interest rates are causing increasing concern. These high rates will be very frustrating to the Reagan effort to balance the budget, because these high interest rates are higher than they have anticipated and predicted, and that's going to add substantially to the deficit this coming year. The President based his budget assumption on an 8.9 percent interest rate in 1982. The Republican members of the Senate Budget Committee predicted a rate of 12 percent and the Democrats predicted it will be 13.7 percent. If either of these figures is correct, and they seem to be, in view of the Fed's behavior and the trend of the interest rates, this will add several billion dollars to the deficit.

**EIR:** So in effect you are saying that unless the President does something about the high interest rates his economic program cannot succeed.

**Sen. Cranston:** It makes it much more difficult, if the President doesn't have the power to do anything about it because the Fed is absolutely independent.

**EIR:** On the House side there has been discussion of being able to remove a Fed chairman by Congress. Congressman Dorgan [D-N.D.] introduced legislation to allow Congress to remove the chairman by a 60 percent vote, so many people don't think the Fed should be independent.

**Sen. Cranston:** We have that right, but I have suggested one thing we might do—the objective I have is to send a message to the Fed that there may be a rise in demand for action more extreme than I have suggested, if they

don't prove more cooperative and more sensitive in their approach to interest rates.

**EIR:** Has there been concern expressed by the administration?

**Sen. Cranston:** They are very concerned about the high interest rates. The statement by the undersecretary of the treasury last week before the JEC [Joint Economic Committee]—Beryl Sprinkel—he testified where he was critical of the Fed.

**EIR:** What steps do you think we should be taking on the economy generally? Second, do you think that we should be increasing the amount of money available to productive investment at low interest rates?

**Sen. Cranston:** If it could be carefully directed to that field, it could be a useful step.

**EIR:** What other economic measures do you think we should take to help the economy?

**Sen. Cranston:** Basically, I support the move toward deregulation where it can be done. And that doesn't mean everywhere. I support the move to cut spending, though I differ with the Reagan administration on the component part of this. But I accept the overall figure. I agree with the need for tax changes, but I support more the line taken by Rostenkowski than the administration.

**EIR:** You mean targeted to increasing savings and investment?

**Sen. Cranston:** Yes, that's it. And I feel the administration is neglecting energy policy by downplaying the need to develop alternate sources of fuel. Arab oil prices have been one of the major causes of inflation.

**EIR:** Would that include nuclear?

**Sen. Cranston:** They are going all-out in the administration on nuclear and I think we should be paying attention also to solar, geothermal, and synthetics. Finally, the increase in defense spending, which I don't fundamentally quarrel with, is inflationary and makes the budget balancing more difficult. And we should be carrying on an all-out effort to achieve arms control, SALT and any other approach.

**EIR:** Do you expect statements by the new head of the Democratic Party, Mr. Manatt—whom I know you are close to—and other Democratic Party leaders, on the economy, specifically on the high interest rates?

**Sen. Cranston:** Yes, I do.

**EIR:** I have been told this will be a major issue for the Democratic Party.

**Sen. Cranston:** I presume it will be, because the interest rates are atrocious and they are hurting the economy.